

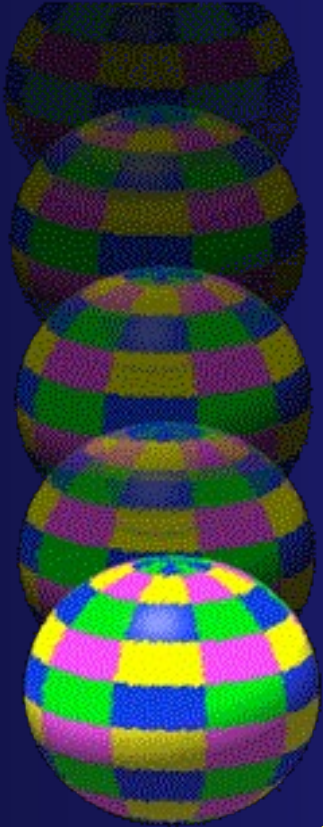
Financial Management



June
2000



Financial Management

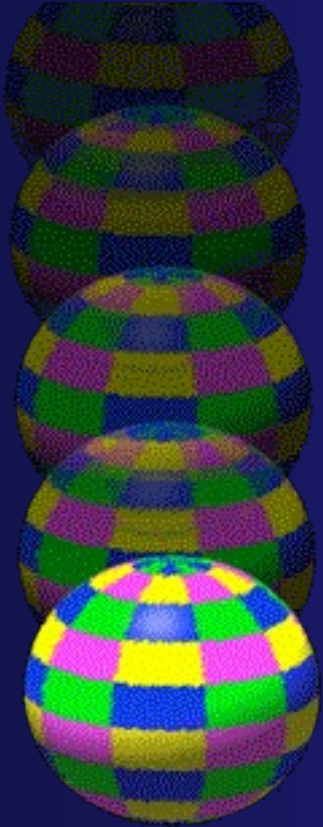


Cost estimating, budgeting,
and program execution

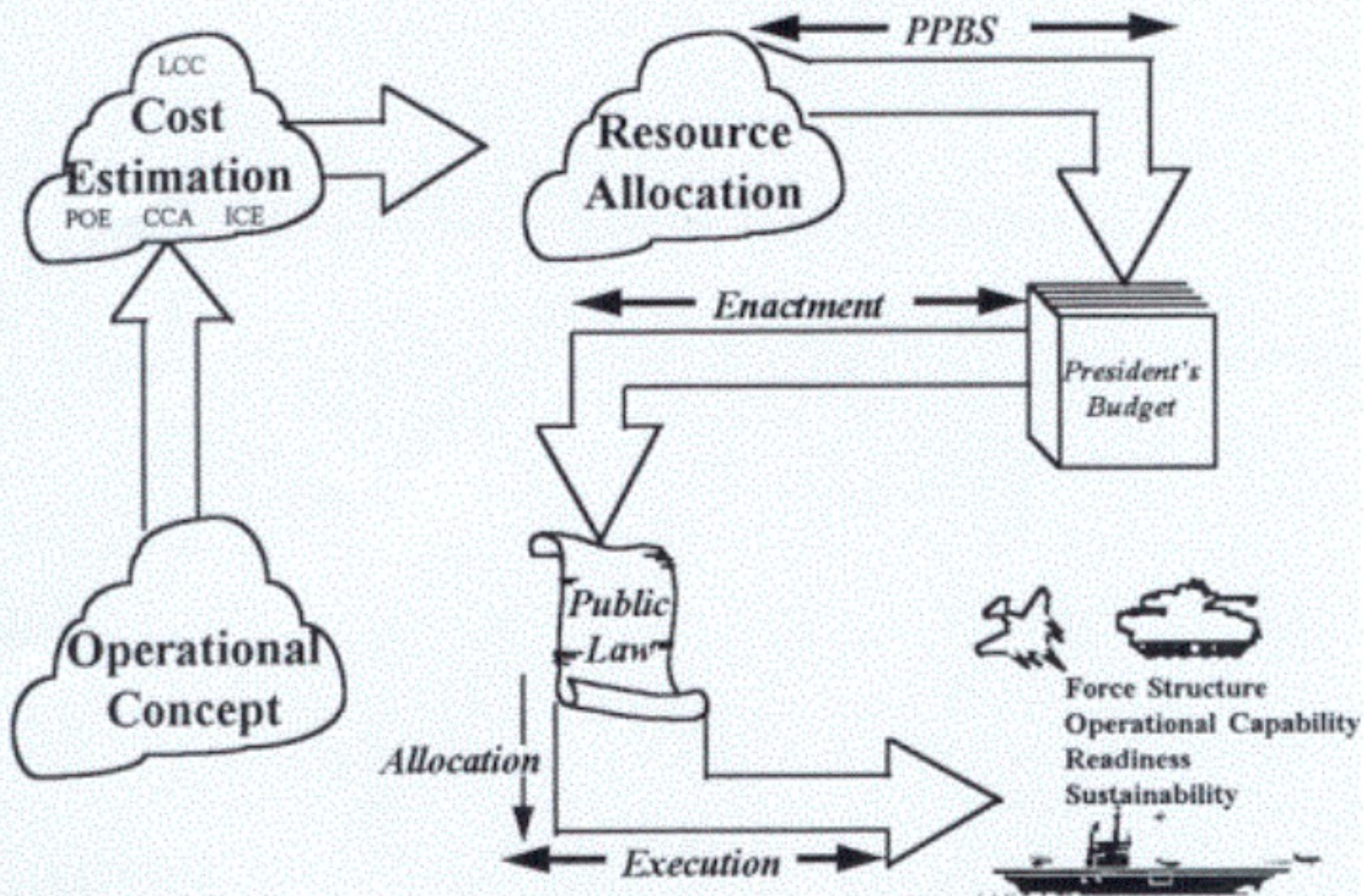


We Will Cover...

- Cost Estimating
- PPBS/Allocation of Resources
- Program Budget Execution



Resource Management Cycle

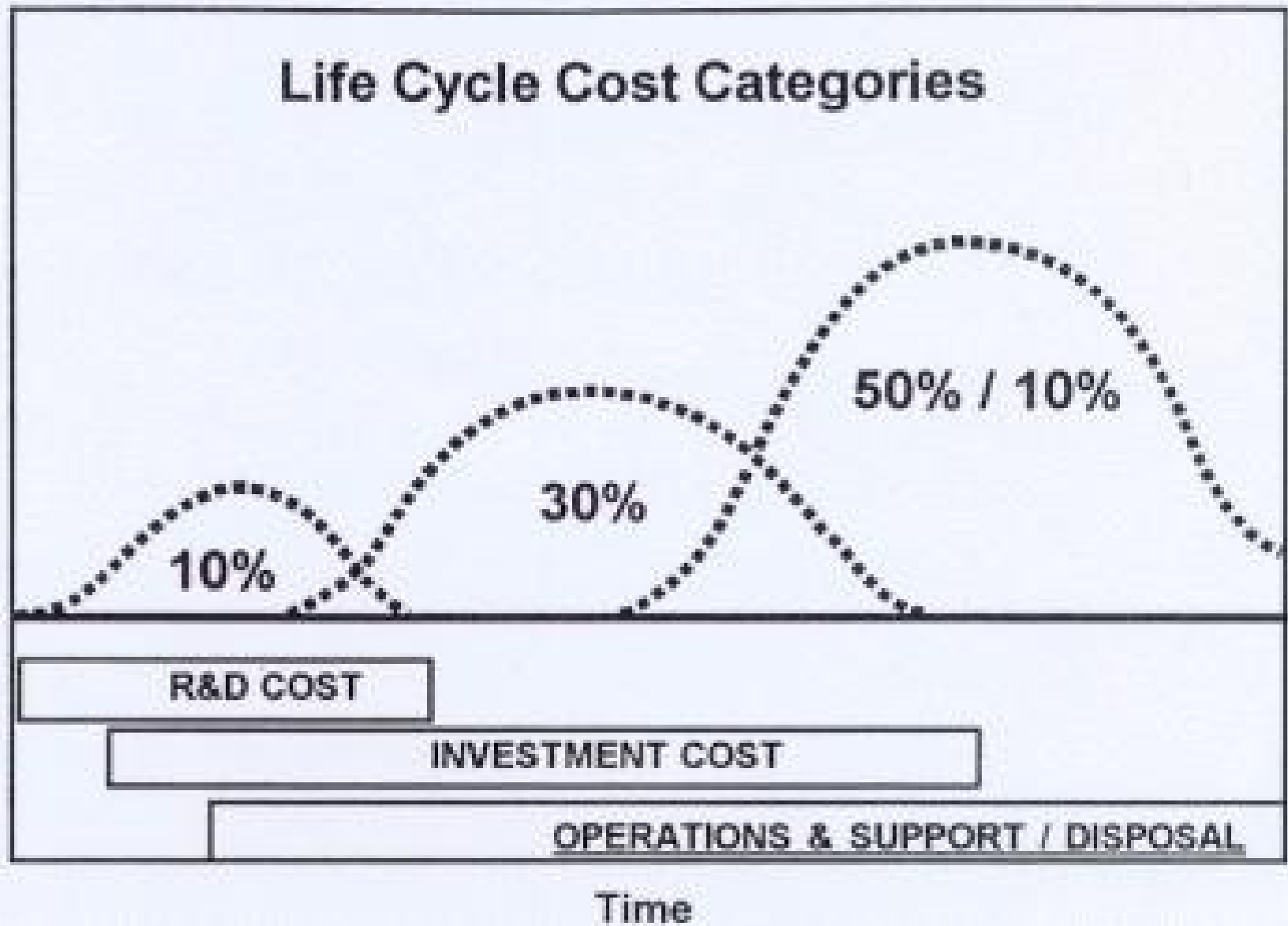


Cost Estimating

- Life Cycle Cost
- Cost Estimating Methods
- Cost Estimating Review Process

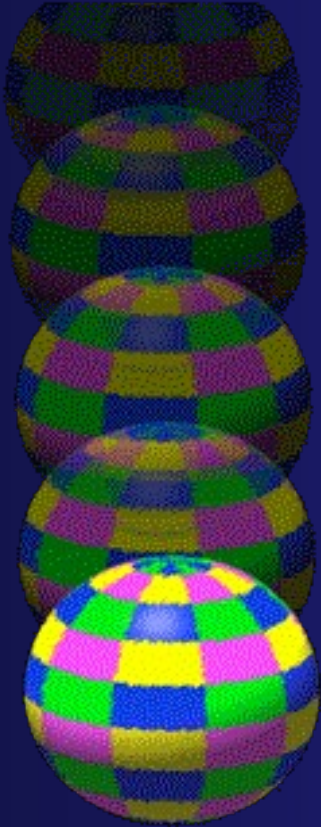


Life Cycle cost Categories





Life Cycle Cost

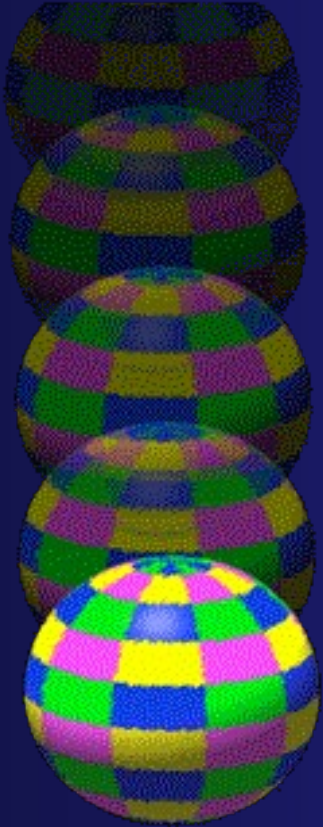


- Over a system's full life, year by year
- All WBS elements
- Both contract and OGC
- All cost categories
 - *R&D*
 - *Investment*
 - New/modified equipment, software, services, facilities
 - *Operations and Support*
 - Personnel, training & maintenance
 - *Disposal*
 - Demilitarization, detoxification or waste storage



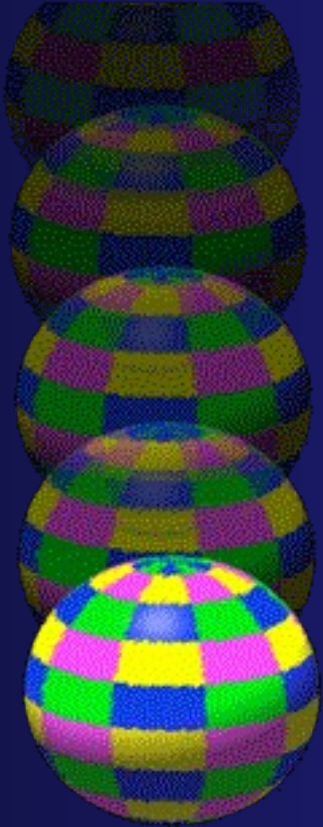
Cost Estimating Methods

- Analogy
- Parametric
- Engineering
- Extrapolation





Analogy

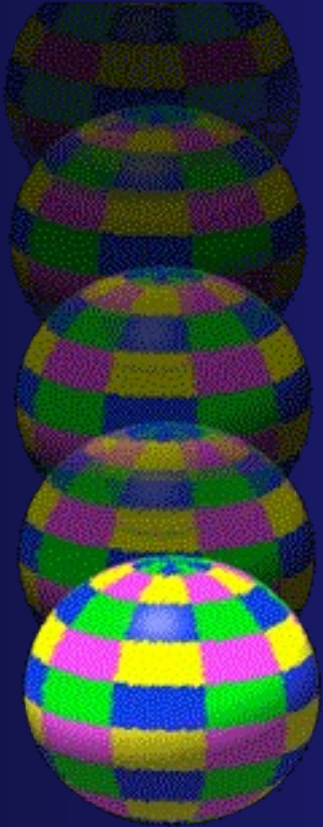


- 1:1 comparison with similar systems
- Strengths
 - *Quick*
 - *Inexpensive*
 - *Easy to Change*
- Weaknesses
 - *High (system) level*
 - *Subjective*
 - *Imprecise*
 - *Does not allow for progress/technology*



Parametric

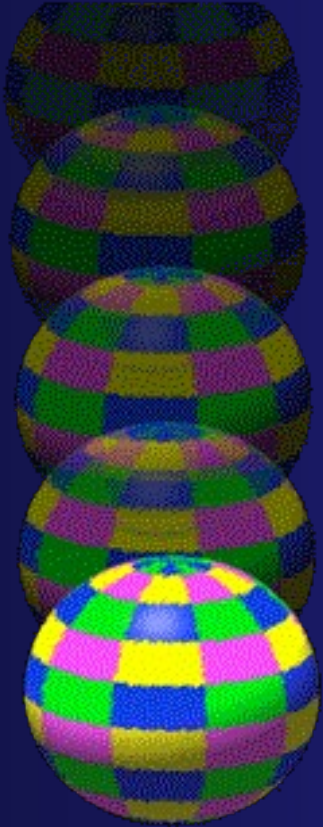
- Cost Estimating Relationships between performance parameters
 - *\$/lb. OR \$/lines of code OR \$/month of test*
- Statistical analysis - regression/correlation
 - *based on speed, thrust, weight, LOC, etc..*
- Strengths
 - *Verifiable by independent sources*
 - *Easy to do "what if" drills*
 - *Inexpensive*
 - *OSD CAIG preferred method*
- Weaknesses
 - *moderately subjective*
 - *accuracy only as good as database*
 - *Difficult to adjust for progress/technology*





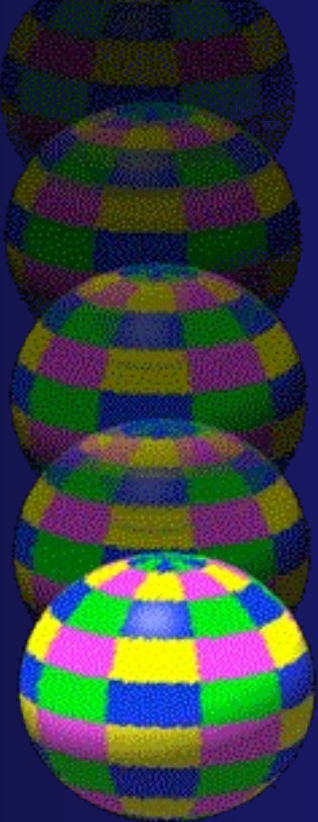
Engineering

- “Bottom Up” estimate
 - *Detailed WBS*
- Strengths
 - *Very accurate for MS III and after*
 - *Limited subjectivity*
- Weaknesses
 - *Very expensive*
 - *Very time consuming*
 - *Hard to do “what if”*





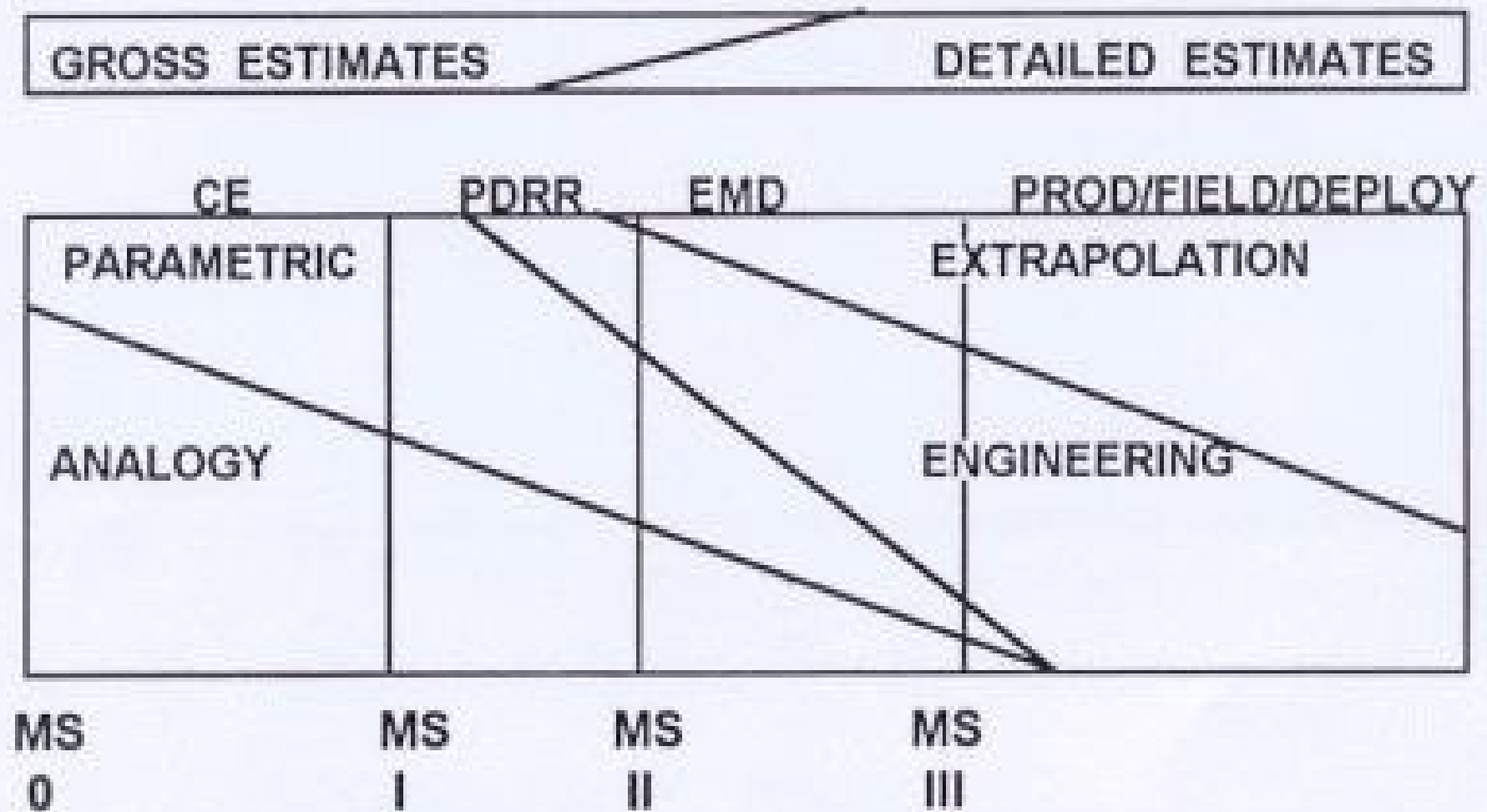
Extrapolation

- 
- Extension of actual costs incurred
 - Strengths:
 - *Little subjectivity*
 - *Very accurate and easy*
 - *OSD CAIG preferred method*
 - Weaknesses:
 - *Limited applicability (Except PATS)*
 - *Budget may already be submitted*

This method actually most applicable for AFRC.

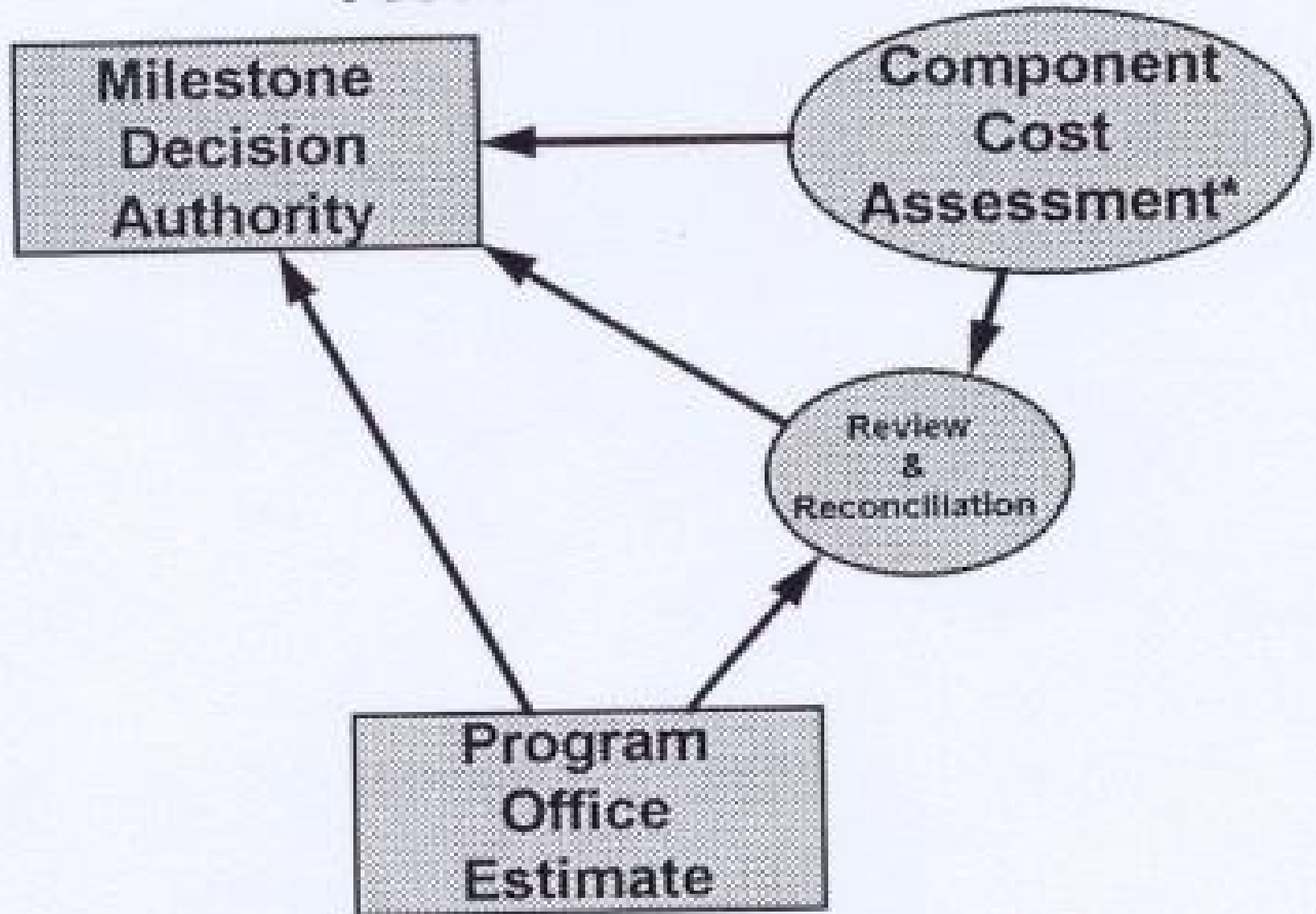
COST ESTIMATING METHODOLOGY

Where each “fits” in the Life Cycle



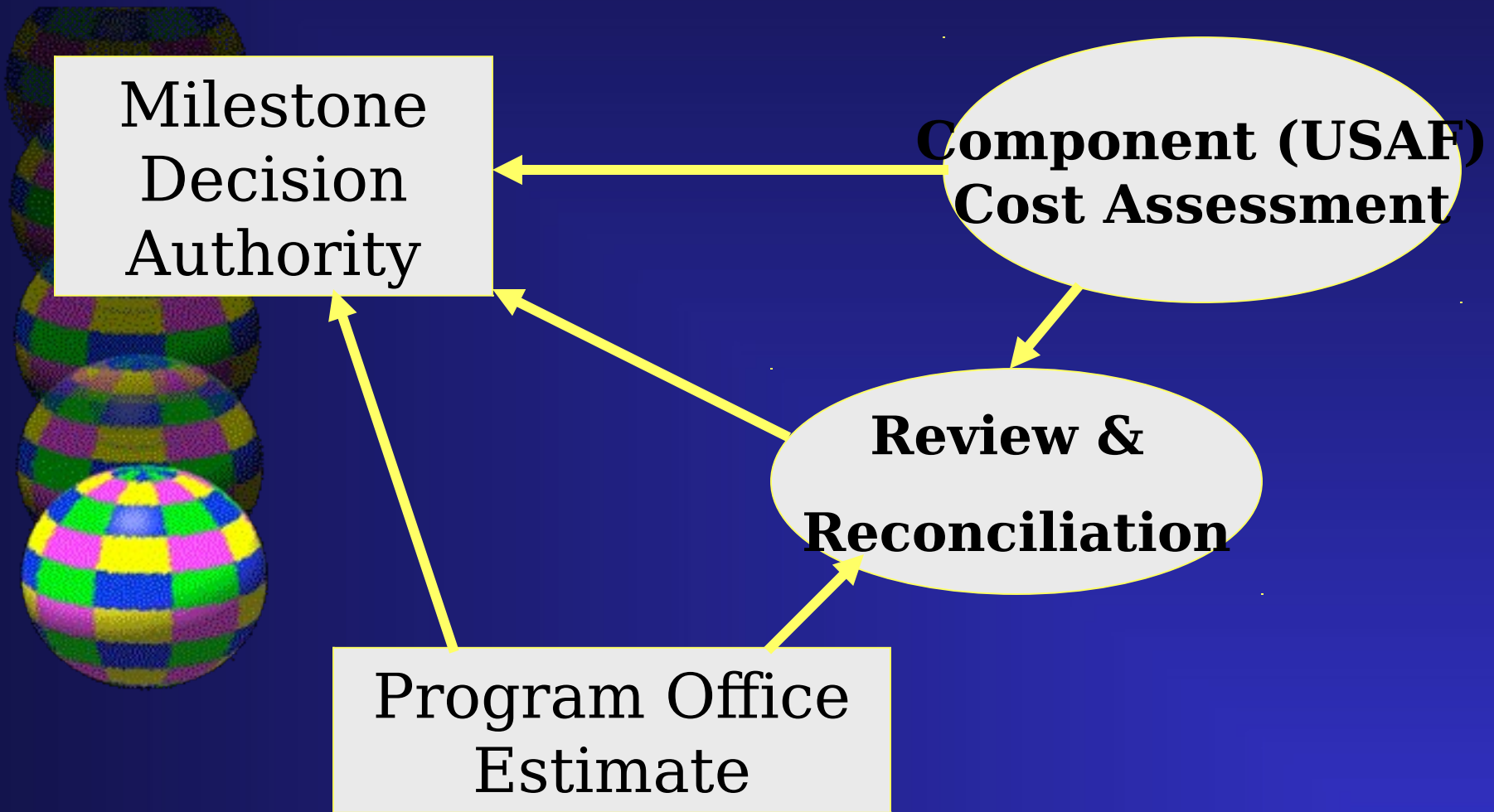
COST ESTIMATING REVIEW PROCESS

ACAT II & III/A





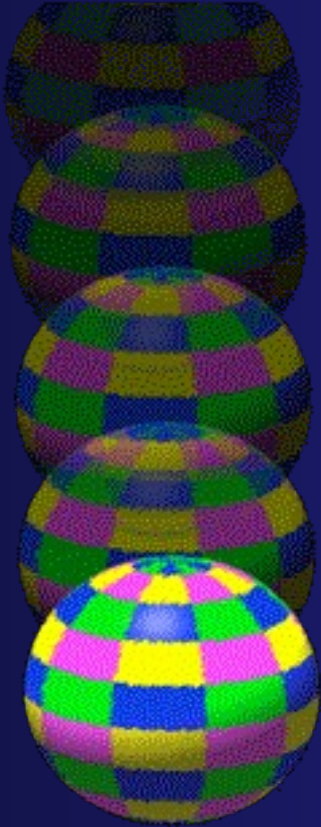
COST ESTIMATING REVIEW PROCESS ACAT II& III/A



This is the process for most AFRC Programs



Typical Cost Review Issues



- All cost elements covered?
 - *“Somebody has to pay for flight test”
(and the new ____)*
- Why was that cost methodology used?
 - *Are the Cost Estimating Relationships valid?*
- Did they catch all the cost drivers?
- Is the program executable?
 - *Within the budget*

Action Officers can help ensure all costs are covered.

DoD Resource Allocation Planning Programming Budgeting System (PPBS)



**PPBS and
Congressional
Enactment**



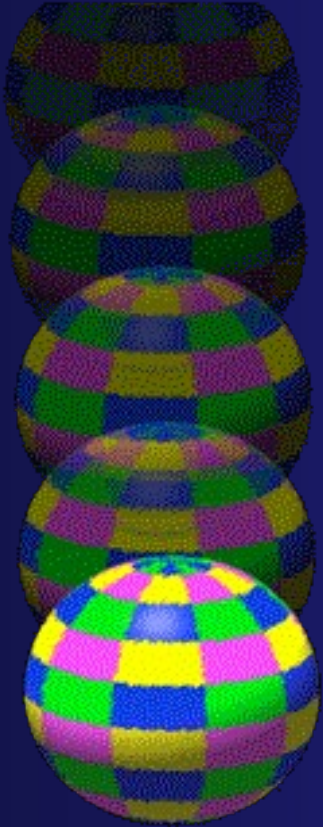
Planning Programming Budgeting System (PPBS)

- Process used by DoD to
 - *Identify needs &*
 - *allocate resources*
- Constant balancing of requirements for
 - *Forces*
 - *Equipment*
 - *Support*

Allocate the limited funding resources available.



PPBS Phases



- Planning
 - *How much defense do we need?*
- Programming
 - *How much defense can we afford?*
- Budgeting
 - *How much money do we get?*

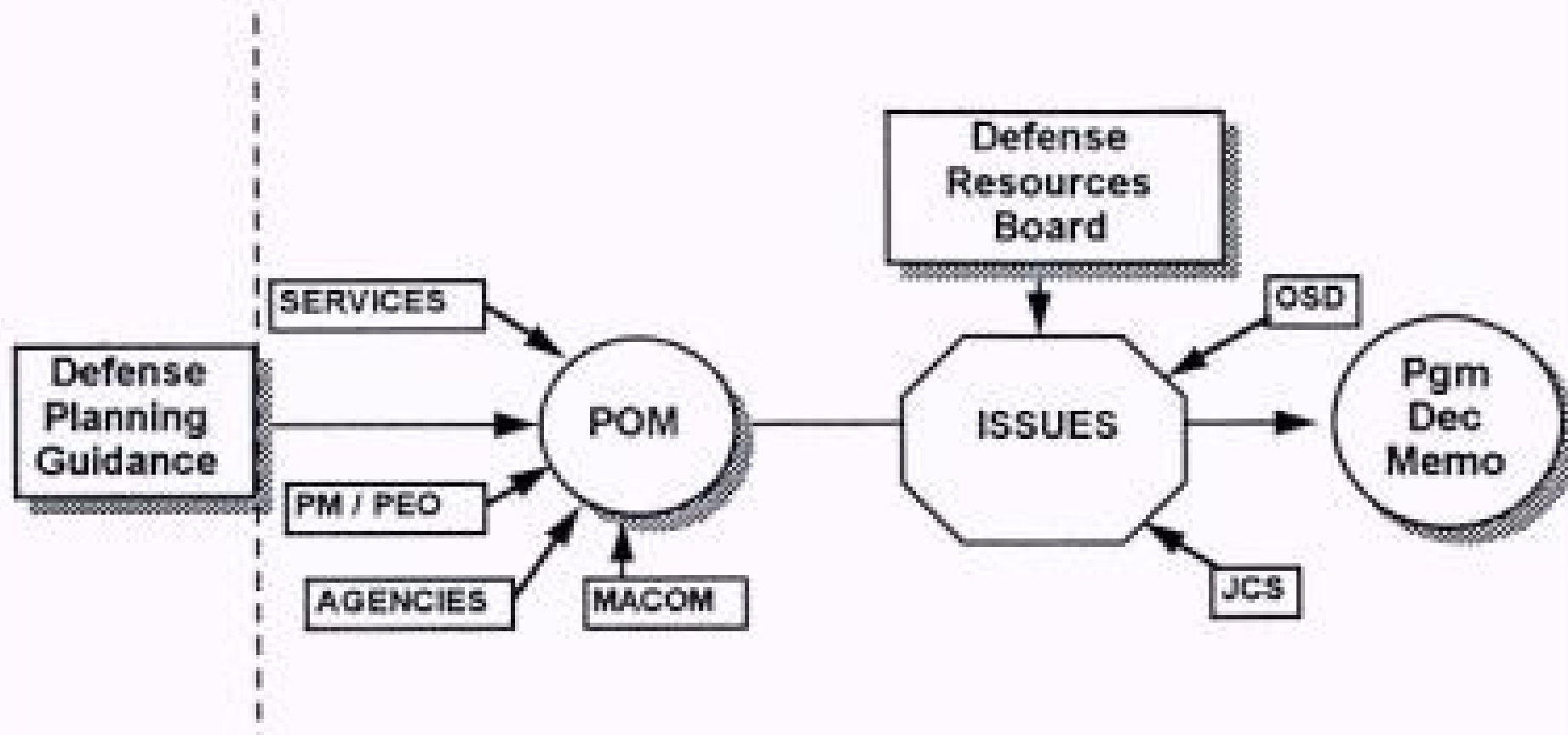


Defense Planning Guidance

- Guides resource allocation decisions
 - *based on national military strategy*
- SECDEF position on
 - *Threat Force planning*
 - *Strategy Resource planning*
 - *PolicyFiscal constraints*
- Components expected to live (program) within the guidance set

All based on the President's National Security Strategy.

PROGRAMMING PHASE



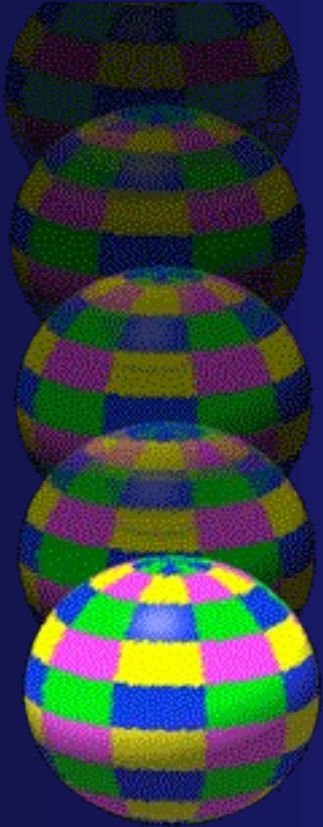
Purpose: Determine what personnel, materials & facilities are needed to execute strategy.

Responsible OSD Official: Director, Program Analysis & Evaluation (PA&E)



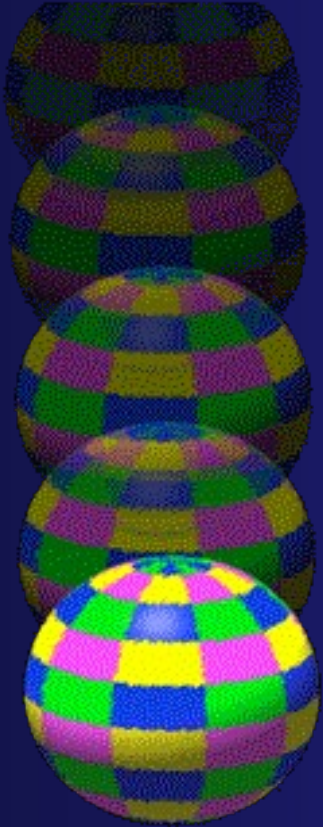
Future Years Defense Program (FYDP)

- Maintained by USD (Comptroller)
- Contains all approved force structure and resources
- Reflects decisions made during programming and budgeting
- Officially updated 3 times per year
 - *Program Objective Memorandum (POM) Apr/May*
 - *Budget Estimate Submission (BES) Sep/Oct*
 - *President's Budget Jan/Feb*



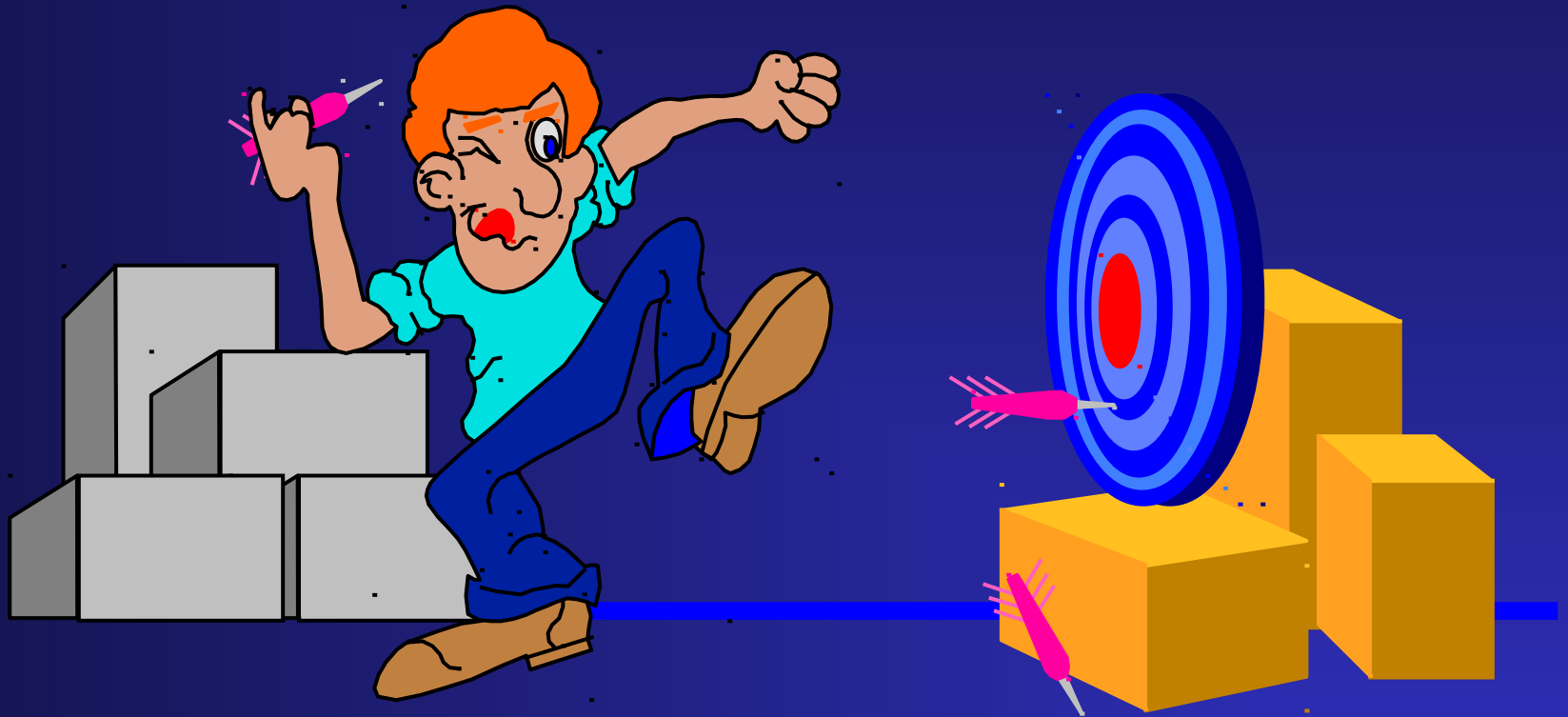


But, what does it mean?



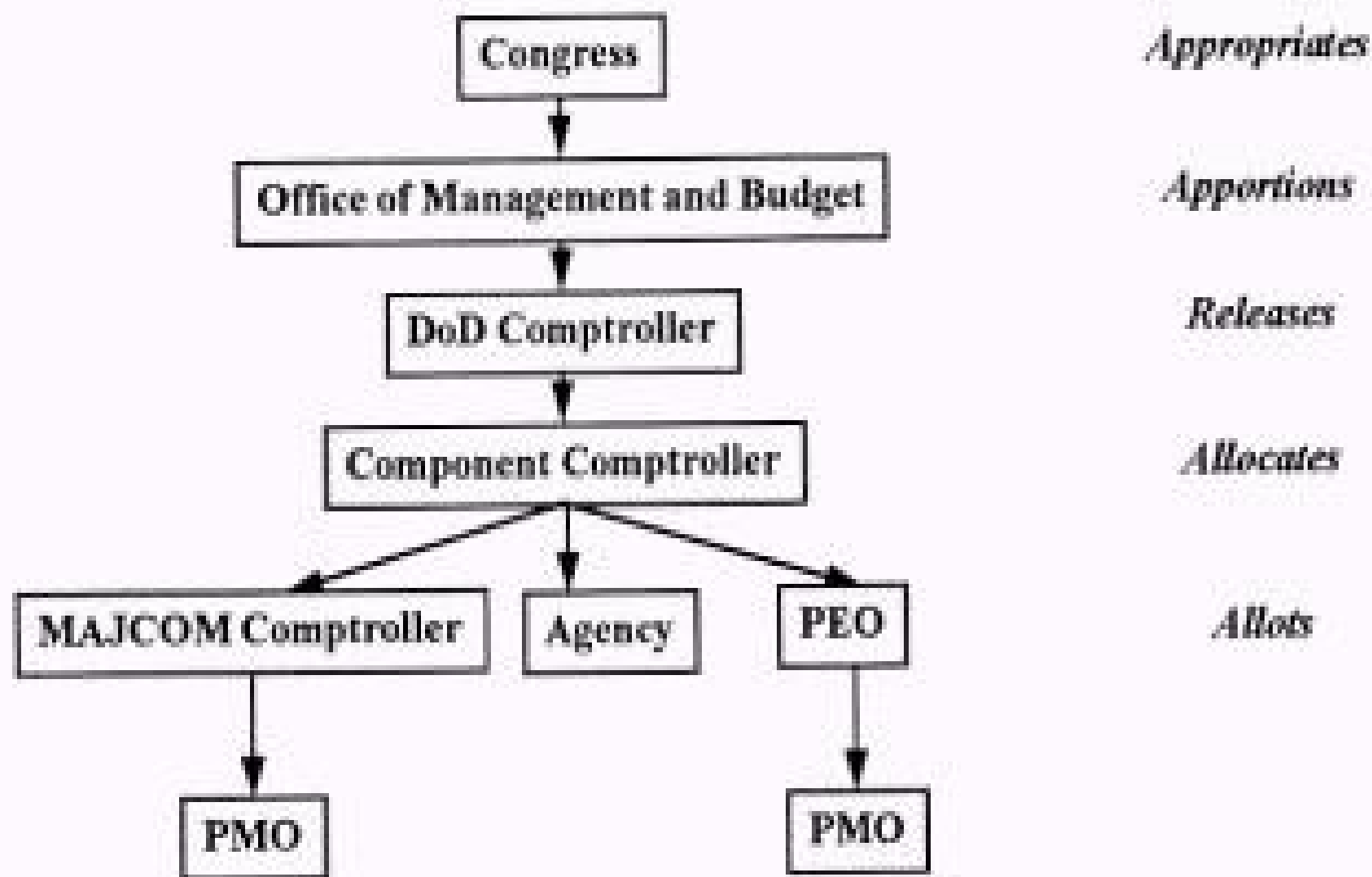
- Every time the budget is updated, someone can play havoc with your programs
- If 2 budget estimates disagree by more than 8%, one of them is missing something
- When the contractor brings you an estimate, you need to go find out the “rest of the story”
- Wounded programs are like wounded fish
 - *the sharks will circle (you can be a shark)*

Budget Execution



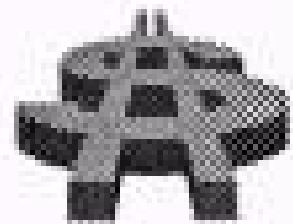
Putting the \$ on Target

Apportionment Process

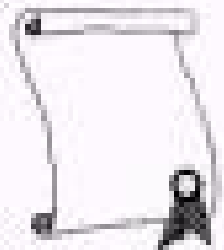


SPENDING TERMS

Budget Authority - Permission by Congress to legally incur debt



Commitment - an administrative reservation of funds



Obligation - a legal reservation of funds

Expenditure - when government check is issued



Outlay - when cash leaves the US Treasury



OBLIGATION PERIODS FOR DEFENSE APPROPRIATIONS



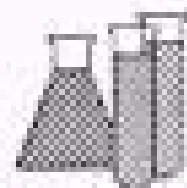
APPROPRIATION CATEGORIES "Color"

PROCUREMENT

• SHIP BUILDING (5YRS)

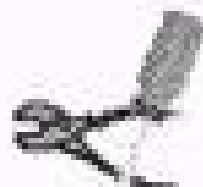
**OBLIGATION
TIME LIMITS**

3 YEARS



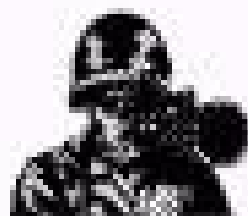
RESEARCH , DEVELOPMENT, TEST AND EVALUATION (RDTE)

2 YEARS



OPERATIONS AND MAINTENANCE (O&M)

1 YEAR



MILITARY PERSONNEL

1 YEAR



MILITARY CONSTRUCTION

5 YEARS



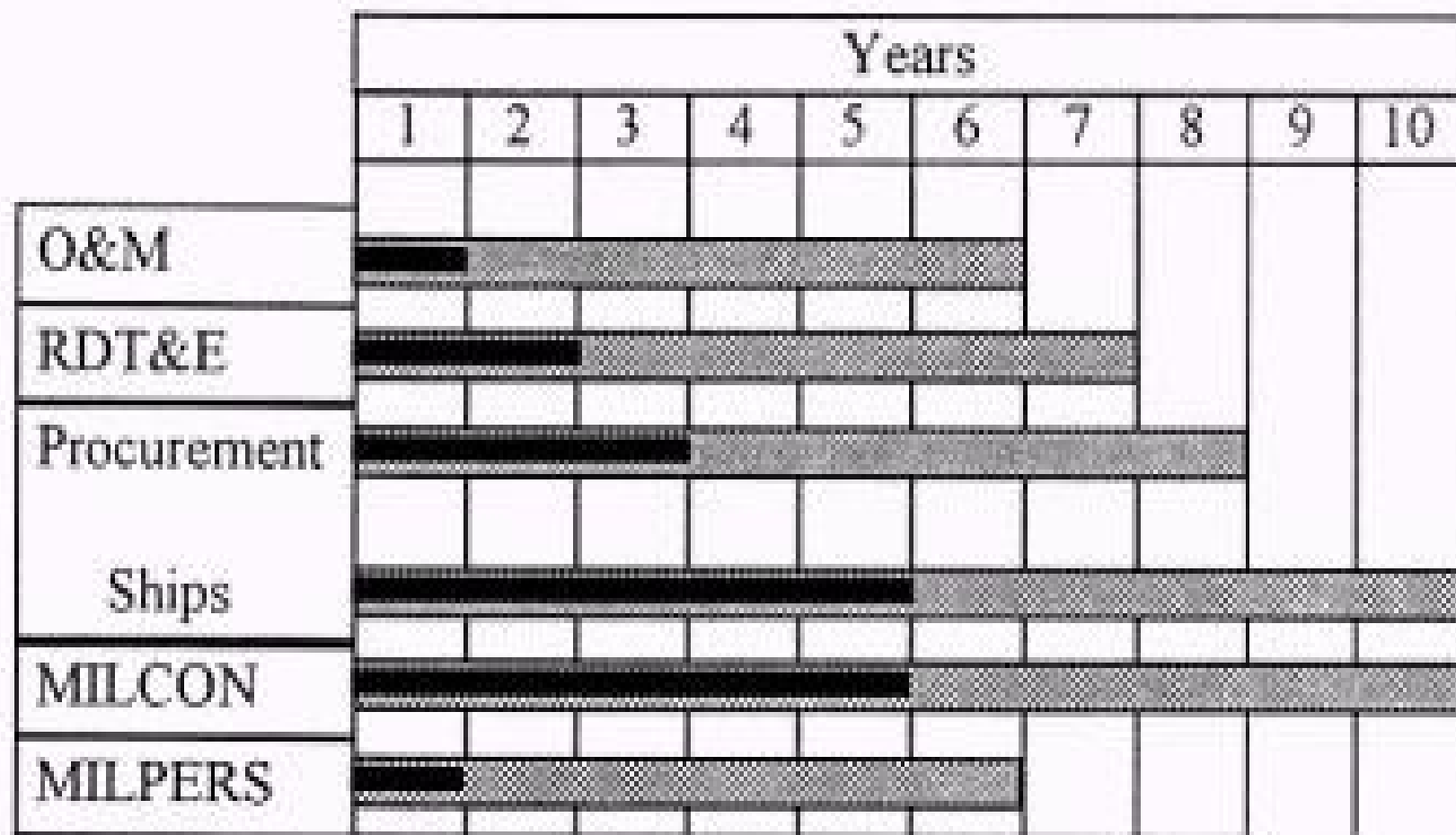
Obligation Periods for Defense Appropriations

Time Limits

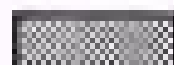
- | | |
|--|-----------|
| Procurement (3010, 3080, 0350) | • 3 years |
| Research, Development, Test
And Evaluation (3600) | • 2 years |
| Operations & Maintenance
(3400) | • 1 year |
| Military Personnel | • 1 year |
| Military Construction (3300) | • 5 years |

Expired Funds

Funds are cancelled 5 years after end of obligation period



Available for Obligation



Available for Outlay



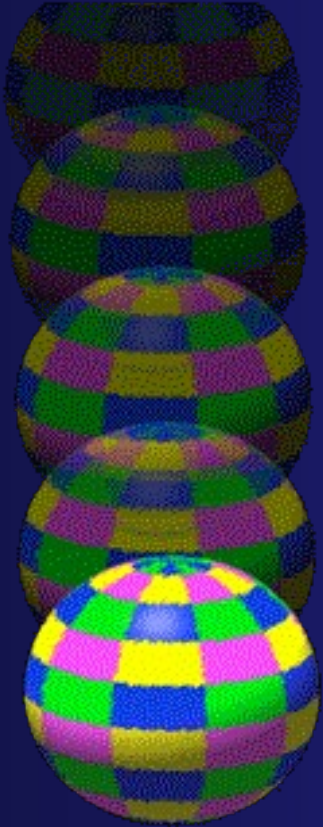
Misappropriation Act



**Funds can only be used
for the purpose for which
Congress has funded
them.**



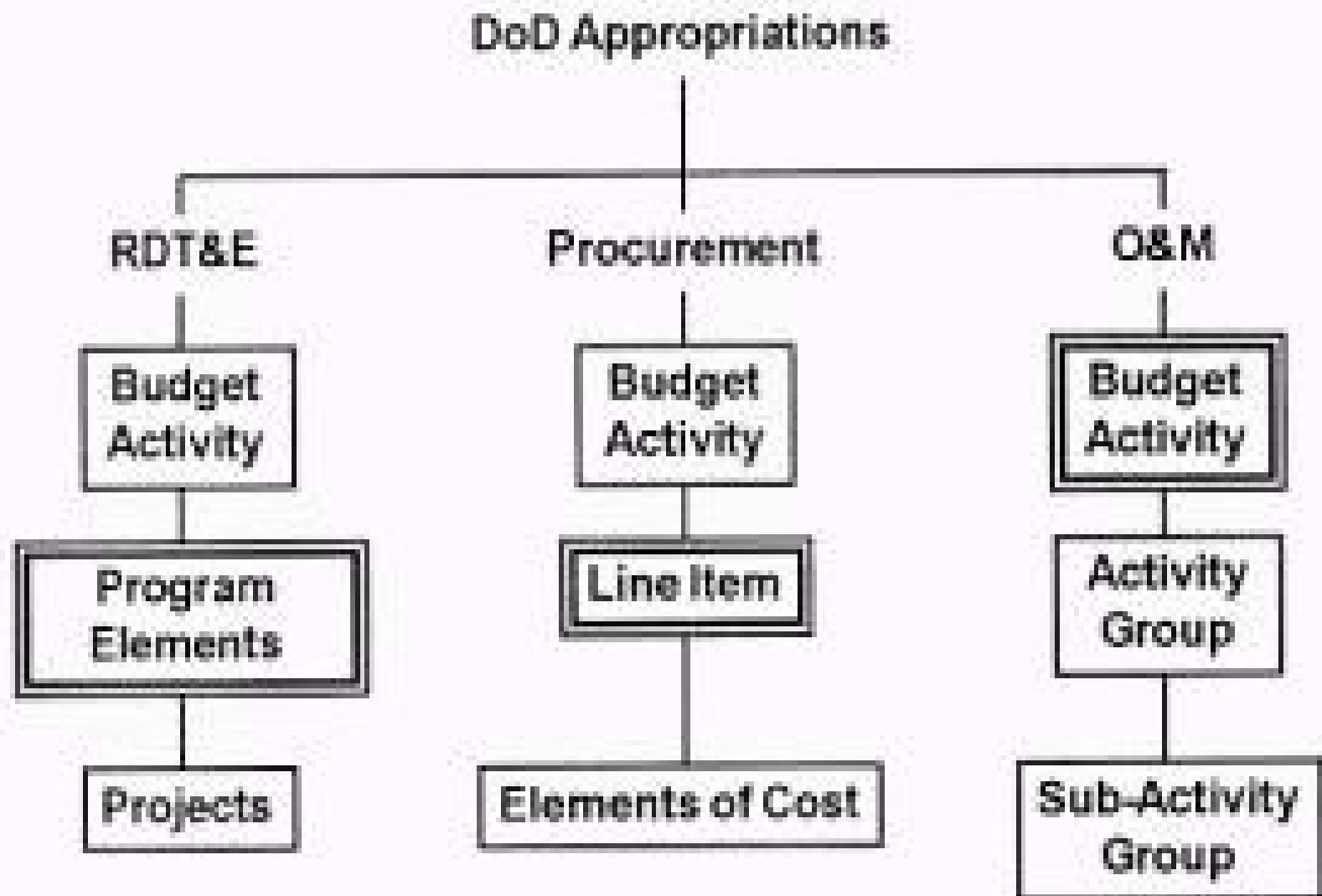
Anti-Deficiency Act



- No obligation in excess of the amount appropriated or permitted by agency regulations
- Forbids contract of obligation to pay money in advance of appropriations
- Requires agency regulations to monitor and fix responsibility for violations

Yes, you can go to jail or

Appropriations Hierarchy



REPROGRAMMING

Reprogramming - Utilization of funds in an appropriation for purposes other than those contemplated at the time of appropriation.

Categories of Reprogramming Actions:

Congressional Prior Approval

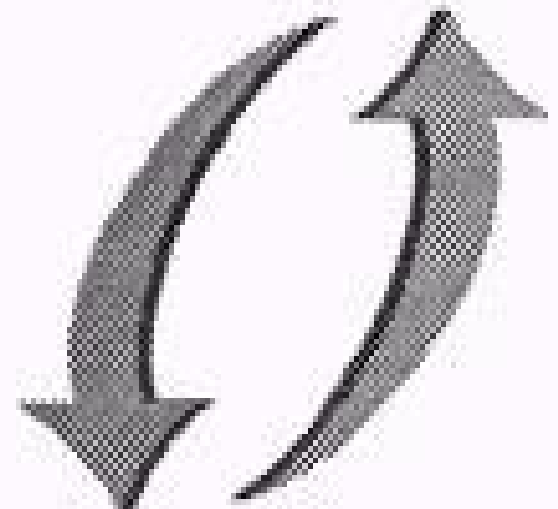
Congressional Notification

Internal Reprogramming

- Controlled at OSD level

Below Threshold Reprogramming

- Controlled at HQ level

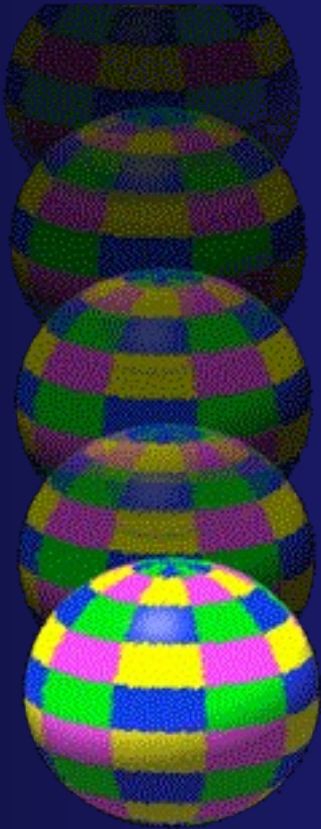


Below Threshold Reprogramming

Appropriations	Reprogramming		Controlled at	Obligation Period
	In	Out		
RDT&E	+ \$4M per oblig period	Greater of - \$4M or -20% / year	Program Element	2 Years
Procurement	+ \$10M per oblig period	Greater of \$10M or 20% per oblig period	Line Item	3 Years <small>5 for Navy Ships</small>
O&M	+ \$10M per oblig period	Not specified in Directive	Budget Activity	1 Year
MILPERS	+ \$10M per oblig period	Not Specified in Directive	Budget Activity	1 Year
MILCON	Lesser of + \$2M or 25% per oblig period	Not Specified in Directive	Project	5 Years



Execution Summary



- Go through the right steps
 - *From BA through expenditure and outlay*
- Use the right “color”
 - *Misappropriations Act*
- In the right year
 - *Depends on the “color”*
- For the right amount
 - *Anti-deficiency Act*

Commit, obligate and spend as though someone else needs your money if you can't use it.



Next...

- Acquisition Environment and Process Overview
- Marketers, Business Development, and the Action Officer
- Requirements Generation Process
- Contracting
- Financial Management:
 - *Cost Estimation*
 - *PPBS/Resource allocation*
 - *Program/Budget Execution*
- Program Execution
- Production & Deployment
- System Upgrades/ Modifications

